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NINEPOINT PARTNERS

Years in the industry
15

Fast fact
Offered to institutional and high-net-worth investors and their advisors, Ninepoint's two newest funds target different corners of the US private debt space

Q&A

Diving into US private debt diversification

The Ninepoint Monroe US Private Debt Fund is focused on the middle-market private debt space. What makes that segment attractive?
Compared to broadly syndicated transactions, middle-market loans typically have lower default rates and better recovery rates, especially in the US, where the capital markets are much broader and deeper. Aside from stronger covenant packages, middle-market loans typically benefit from more frequent reporting and excess cash-flow sweep requirements, which means more of the cash flow goes toward paying off the loan if the companies do well.

On the market side, you have 200,000 companies in the space; they generate one-third of private-sector GDP and employ roughly 47.9 million people in the US, and 71% of them have been in business for at least 20 years. Despite its size, this market doesn't get the attention it deserves from the banks; this is primarily due regulatory restrictions imposed by the Dodd-Frank Act and Basel III, allowing non-bank private lenders to do well there.

You also recently announced the Ninepoint Trade Finance Fund. What makes trade finance a good investment opportunity?
Trade finance deals typically have terms between 30 and 120 days, which eliminates the term risk. And in my view, trade finance is much more transactional and less reliant on long-term relationships with a particular company. The space is capital-intensive, with transactions generally in the hundreds of thousands or low millions; with that, lenders could get a healthy risk premium, with typical returns north of 15%. In terms of size, the global supply chain and trade finance market was worth US$5.4 trillion in 2017, with the US being one of the largest traders in the world.

Because of the Dodd-Frank Act, and Basel III to a lesser extent, banks face higher Tier 1 capital ratio requirements when lending to companies. Based on that measure, small and medium-sized enterprises represent higher risk. With 74% of such enterprises' needs being left unmet, we can step in with our own trade finance offerings. And since we have insurance that protects 90% to 100% of the principal, the counterparty risk is taken care of.

How can Canadian investors benefit from these funds?
I think, given where we are in the current cycle, investors need to think of downside protection; for Canadians, that means diversifying away from the commodities- and resource-driven domestic economy and away from public equities and fixed income. Exposure to the US gives them access to a broader economy with a wide range of sectors like pharmaceuticals, healthcare, technology and manufacturing.

The two strategies offer unique advantages for investors. Our lower middle-market private debt fund targets yield with access to an institutional-class senior debt provider that has a long performance track record. With the trade finance fund, investors get liquidity on top of yield, provided through a solid transaction origination platform that covers different parts of the US.

Institutions mull stepped-up crypto exposure

A new survey from Fidelity Investments has found that 22% of US institutional investors already have some exposure to digital assets, while four in 10 are open to investing in digital assets over the next five years. Among the more than 400 investors Fidelity surveyed, 47% viewed digital assets as having a place in their investment portfolios, another 47% appreciate them as an innovative technology play, and 46% view their low correlation to other assets as one of their most appealing characteristics.

Fengate closes $1 billion infrastructure fund

Fengate Asset Management has closed total capital commitments of $1.1 billion for its Fengate Core Infrastructure Fund III and affiliated vehicles, exceeding both its $750 million target and its initial hard cap of $1 billion. With support from institutional investors across Europe, Japan and North America, the fund extends the firm's strategy of investing in mid-sized infrastructure assets with an emphasis on greenfield projects, as well as selected brownfield acquisitions where it can achieve its target returns.

Purpose puts ETF twist on alternative income strategy

Purpose Investments has launched the Purpose Enhanced Premium Yield Fund (PAYF), offering investors a new way to access its alternative income strategy. Available as an ETF or mutual fund, PAYF builds on Purpose's Premium Yield Fund strategy by using fundamental analysis of North American stocks (looking at quality, relative value and high-conviction ideas) and evaluating options (based on market volatility, premiums, liquidity and maturity) to find richly priced options to sell.